



Johnson & Johnson (JNJ)

Updated April 8th, 2018 by Nate Parsh

Key Metrics

Current Price: \$128	5 Year CAGR Estimate: 7.4%	Quality Percentile: N/A
Fair Value Price: \$128	5 Year Growth Estimate: 4.8%	Momentum Percentile: N/A
% Fair Value: 100%	5 Year Valuation Multiple Estimate: 0.0%	Total Return Percentile: N/A
Dividend Yield: 2.6%	5 Year Price Target: \$162	Valuation Percentile: N/A

Overview & Current Events

Johnson & Johnson is a diversified health care company and a leader in the area of pharmaceuticals, medical devices and consumer products. JNJ was founded in 1886 and employs more than 125,000 people around the world. The company had more than \$76 billion in revenues in 2017, half of which came from outside the United States.

JNJ reported 4th quarter 2017 earnings on 1/23/2018. The company earned an adjusted \$1.74 per share in the quarter. EPS was up 10% from Q4 2016. JNJ had \$20.2 billion in revenue during the quarter, \$130 million above estimates and 11.5% higher on a year over year basis. U.S. sales were up almost 10% and international sales grew 9%. Currency exchange had a favorable 2.1% impact on sales numbers.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	\$4.57	\$4.63	\$4.76	\$5.00	\$5.10	\$5.52	\$5.70	\$5.48	\$5.93	\$7.30	\$8.10	\$10.24
DPS	\$1.80	\$1.93	\$2.11	\$2.25	\$2.40	\$2.59	\$2.76	\$2.95	\$3.15	\$3.32	\$3.36	\$4.80

JNJ has grown earnings over the past 10 years at a rate of 4.8%. The company managed to grow earnings before, during and after the last recession, showing that JNJ's products are in demand regardless of market conditions. Because of improving business performance and tax reform, JNJ forecasts that earnings per share will grow by 11% in 2018. To create a margin of safety, 2023's expected EPS was arrived at by applying the company's historical growth rate (4.8%) to 2018's earnings per share midpoint (\$8.10). This gives us an expected EPS of \$10.24 per share for 2023.

With 55 years of growth, JNJ has one of the most impressive dividend growth streaks available in the market. The average dividend increase over the past 10 years is 7.4%. Based off of the current annualized dividend, investors could see the dividend become \$4.80 per share by 2023. At these estimates, the company would be paying out just 46.9% of earnings in the form of dividends. This would allow the company to potentially offer higher dividend growth in future years. Note: JNJ usually raises its dividend at the end of April, so the 2018 DPS is based off of the current quarterly rate of \$0.84 per share.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	14.3	12.5	13.1	12.7	13.1	15.6	17.7	18.2	19.1	20.9	15.8	15.8
Avg. Yld.	2.8%	3.3%	3.4%	3.5%	3.6%	3.0%	2.7%	3.0%	2.8%	2.6%	2.6%	3.0%

JNJ's multiple compressed during the last recession, but rebounded to much higher levels a short time later. JNJ has an average price to earnings multiple of almost 15.8 per year over the past decade. Based off of the company's midpoint guidance for 2018 and the 4/8/2018 closing price of \$128, JNJ's stock is trading at a multiple of 15.8. This means that shares are fairly valued compared to their historical P/E.

Shares of JNJ have often paid shareholders a generous dividend. The stock's current yield is above the S&P 500's, but below the 10-year Treasury Bond. The company offers a combination of share price appreciation and dividend income.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	53.4%	45.9%	41.6%	39.3%	37.6%	36.9%	39.6%	36.4%	35.6%	32.5%	31.4%	36.2%
Debt/A	49.9%	46.6%	45%	49.8%	46.6%	44.2%	46.5%	46.7%	50.1%	61.8%	65.3%	49.9%
Int. Cov.	234.6	44.9	50	26.9	30.6	39.1	45.3	46.6	57.3	33.9	44.4	35.2
Payout	39.4%	41.7%	44.3%	45%	47.1%	46.9%	48.4%	53.8%	53.1%	45.5%	41.4%	46.9%
Std. Dev.	30.4%	17.8%	13%	17.5%	9.8%	12.8%	14.7%	16.4%	13.3%	11.5%	12.3%	15.7%

Based on the company's ability to improve earnings in 2008 and 2009, JNJ can be considered a recession proof company. By having a diversified business model of drugs, devices and consumer products, JNJ is insulated to a certain degree from business slowdowns in any one division. Even in a recession, people will look to maintain their health, giving JNJ an advantage during tough economic conditions.

JNJ's has spent heavily on acquiring companies that fit with its business model. One such is example is the company's \$30 billion all cash purchase of Actelion, which closed on 6/16/2017. Actelion brings to JNJ a line-up of high margin medicines for rare diseases and should be accretive to earnings this year.

Even with more than 5 decades of dividend growth, JNJ has a reasonably low dividend payout ratio. While the company will most likely announce a raise at the end of this month, JNJ has a payout ratio below 42% today. This gives JNJ ample room to raise its dividend. If EPS grows at a faster than historical rate, the dividend could grow at a much higher rate.

Final Thoughts & Recommendation

We are estimating expected total returns of 7.4% per year through 2023 for Johnson & Johnson. This estimate is based off a combination of growth (4.8%), dividends (2.6%) and multiple mean revision (0%). Given the company's leadership in the healthcare sector, dividend growth history and performance during the last recession, the stock is among the safest investments around. Our growth estimate is relatively conservative. Johnson & Johnson is one of only 2 companies to receive a AAA rating from Standard & Poor's (Microsoft is the other), which speaks to its safety.

Total Return Breakdown by Year

